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UNCLAS SECTION 01 OF 03 MEXICO 000104

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SUBJECT: SCENSETTER FOR THE VISIT OF CODEL CUELLAR TO
MEXICO, JANUARY 20-22, 2008

REF: MEXICO 06228

¶1. Welcome to Mexico City and Matamoros. Mexico is key to
USG success in combating the trafficking of drugs, persons,
arms and precursors, terrorism, and other transnational
threats. Since entering office last December, Felipe
Calderon's government has moved with unprecedented speed to
improve public security.

Strengthening Law Enforcement

¶2. Specific measures include: launching aggressive anti-drug
operations in ten states; raising pay for the military;
replacing numerous high-ranking federal police officers in an
anti-corruption campaign; launching a billion dollar project
to create real-time interconnectivity between all police and
prosecutors, as well as a unified national crime database;
and, proposing congressional bills to unify federal police
forces and reform the judicial system.

¶3. The GOM has greatly strengthened law enforcement
cooperation with the USG, which along with a more flexible
attitude by the courts has allowed for the extradition of a
record 83 criminals to the U.S. in 2007, exceeding 2006's
record level. The GOM is now extraditing cartel kingpins of
significance and has seized record hauls of cocaine,
methamphetamine precursors, and bulk cash and other assets.

¶4. The ongoing security campaign has reduced the broad
geographic range and legal impunity that the cartels have
traditionally enjoyed in Mexico, although progress is tenuous
and uneven. Addressing personal security challenges ranks
regularly as the number one priority in public opinion polls.
Calderon has accomplished more in his first year than almost
any other recent Mexican president in countering unlawfulness
and murder.

Stakes Rising for Security Officials

¶5. The human price Mexico has paid has been high: in 2007,
over 300 police and military officials have been killed.

Mexican political leaders are not shy about reminding us that U.S. demand for drugs, money laundering, and illegal arms flows from our side of the border help fuel Mexico's drug war.

Human Rights Issues

¶6. Members of the political opposition and human rights groups have expressed concern about the continued use of the military for internal security and the potentially corrupting influence this fight poses to the institution. The National Human Rights Commission (CNDH) has investigated and reported on several incidents.

¶7. To date, the Secretariat of Defense has shown a willingness to deal with abuses committed by soldiers, including investigating individuals accused of violations in the state of Michoacan and prosecuting soldiers who killed a family at a roadblock in the state of Sinaloa. In October 2007, eight soldiers were tried on charges relating to the beating of 7 policemen and the rape of some 14 women. Four of the soldiers were acquitted; the other four were convicted and sentenced up to 41 years, marking the first time troops have been tried and convicted in civilian courts. Outstanding allegations against members of a variety of federal, state and local security elements remain unresolved and under investigation. In January, Mexico's Army (SEDENA) create a Human Rights Office to address human rights concerns, promote greater respect for human rights and bring Mexico into compliance with its obligations under international humanitarian law.

MEXICO 00000104 002 OF 003

Other Security Challenges

¶8. EPR attacks on Pemex pipelines in July and early September have added another dimension to Mexico's security concerns, raising the specter of home-grown terrorism. Calderon also recognizes that Mexico's own southern border remains extremely vulnerable to immigration, trafficking in persons, and the smuggling of contraband, and that securing this border is of vital importance to U.S. security. Mexico faces a variety of security challenges -- both mature and incipient.

Justice Reform

¶9. The Mexican Senate passed judicial reform legislation in December that would facilitate transition to an oral trial system, give law enforcement officials broader search and seizure authority, allow consensual monitoring of telephone calls, and give police more responsibility for conducting investigations. Since the Senate modified several articles of the draft prior approved by the House of Deputies, the Senate version will return to the House for consideration in February. Several leftist parties and human rights activists described the legislation as a "step backwards," giving the State excessive authorities at the expense of the accused. Many jurists, however, believe effective implementation of the legislation will make the Mexican system work more transparently, expeditiously, and fairly.

Economy

¶10. The Calderon administration has registered some impressive economic accomplishments during its first year --

maintaining macroeconomic stability, keeping inflation at a reasonable 4%, and lowering barriers to trade. The president secured quick congressional approval of the 2007 and 2008 budgets, and won passage of an unpopular but necessary government workers' social security reform. His effort to reform Mexico's tax system paid off on September 14 when Congress approved a tax reform that will boost government revenues by 2.1% of GDP by 2012. Much remains to be done, however, to arrest Mexico's slipping global competitiveness. The GOM's challenge is to implement structural reforms required for growth sufficient to raise 40% of Mexicans out of poverty.

President Facing Difficult Political Environment

¶11. Having completed his first year in office, Felipe Calderon has crafted an image as an activist president, consolidating his own political position and the power of the Mexican state -- no small feat given tensions surrounding the 2006 elections and the law enforcement challenges the country faces. The president faces a difficult political environment here, with an active and vocal opposition challenging him regularly.

¶12. Prosperity ranks with security as the key priority in the minds of most Mexicans. If his programs and policies prove unsuccessful in generating the kind of growth necessary to create sufficient jobs and reduce poverty, Calderon could quickly find himself vulnerable to a reinvigorated political opposition. All three of the main political parties have their eyes on bellwether 2009 congressional elections.

U.S.- Mexico Relations

MEXICO 00000104 003 OF 003

¶13. The Calderon government has demonstrated pragmatism in its posture toward the United States and bilateral cooperation, particularly in law enforcement, has never been stronger. However, the failure of immigration reform in the United States was a political setback for the president. The result is that he enjoys less political space in which to openly cooperate with the U.S. on issues of mutual bilateral importance.

Regional Focus: Matamoros

¶14. The border region, including Matamoros, is a key economic conduit between the U.S. and Mexico. Matamoros is the third-largest city in the state of Tamaulipas behind Reynosa and Nuevo Laredo. As with other cities along the border, the economy on both sides is heavily influenced by the maquila industry with significant U.S. manufacturing investment. In addition to Mexico's heavy reliance on U.S. industrial investment for employment in the region, U.S. commerce along the border relies heavily on retail spending by visiting Mexicans as the majority of consumer items are less expensive and more readily available in the U.S.

¶15. The delicate balance of U.S. industrial investment and Mexican consumerism along the border is affected by the current issues of narcotrafficking in Mexico and increased security efforts by DHS. The recent increase in combating narcotrafficking has resulted in a number of highly-publicized confrontations between Mexico's Federal Police (AFI) and the Gulf Cartel in the region. In particular, firefights in Rio Bravo and Reynosa since the New Year have increased security concerns potentially impacting future investment decisions. Additionally, increased wait times at border crossings have produced increase delays and

shipping costs for U.S. industrial interests in Mexico, as well as serving a possible deterrent for Mexican consumers that might cross the border into the U.S. market to shop.

¶16. Additional topics at the heart of many regional concerns and possible topics of conversation during your meeting in Matamoros include the proposed border wall, shared water resources and physical infrastructure. Contacts on both sides of the border fear economic and social backlash from the proposed border wall. In the agricultural community, in particular, Tamaulipas farmers allege that deliveries of Rio Grande water to the U.S. under the 1944 Treaty deprive them of needed water. The latest flare-up, triggered by deliveries to end the 2002-2007 water cycle without a deficit is currently being analyzed by the Mexican Supreme Court. (The shared water supplies that fall under the IBWC include Rio Grande resources such as the Falcon Dam reservoir in the northern portion of the Matamoros consular district.) A continued lack of sufficient public infrastructure in terms of highways, electricity and sanitation, among others, contributes to a cautious investment environment.

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